

**% of Total FY 2004 General Fund:** 4.20%

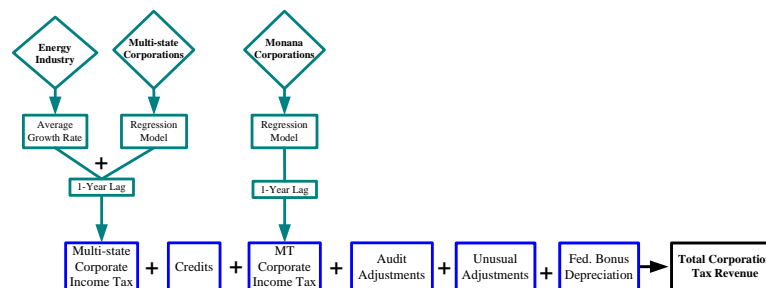
## Reasons For Historical Changes

- Tax Changes
  - 1987 Federal Tax Reform Act of 1986 reduced top tax rate from 50 percent to 34 percent, repealed the investment tax credit, enacted less favorable investment depreciation, and increased the number of filers subject to the Alternative Minimum Tax from 24 percent to 45 percent
  - 1988 Added surtax of 4 percent for tax year 1988 (HB 703. 1987 Session Law Chapter 616)
  - 1988 Created "water's-edge" designation election (HB 703. 1987 Session Law Chapter 616)
  - 1989 Added surtax which increased tax rate of 5 percent, applicable in tax year 1990 (HB 28. 1989S Session Law Chapter 11)
  - 2003 Job Creation and Workers Assistance Act of 2002 enacted a first year bonus depreciation of 30 percent on assets put in service between 9/11/01 and 9/10/04
    - Estimated to cost Montana:
      - FY 2002 3.0 million
      - FY 2003 5.1 million

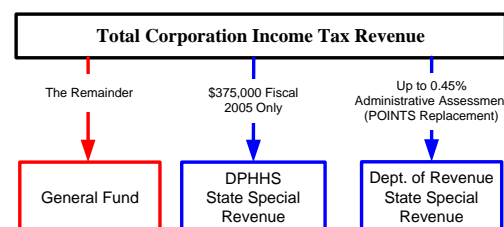
- 2004 Jobs and Growth Tax Relief Reconciliation Act of 2003 extended the first year bonus depreciation provision of 2002, increasing the bonus to 50 percent and extending the provision for property acquired between 5/6/03 and 12/31/2004
  - Estimated to cost Montana (in coordination with 2002 JCWAA):
    - FY 2004 8.7 million
    - FY 2005 1.1 million
- 2005 Change in the distribution of "water's edge" revenues. (HB 721. 2003 Session Law Chapter 521)
- Economic Changes
  - Business cycle contractions, weakened economy:
    - Jan. 1980 through July 1980
    - July 1981 through Nov. 1982
    - July 1990 through Mar. 1991
    - Mar. 2001 through Nov. 2001
  - Stock Market Activity
    - Aug. 1982 First 100 million share day
    - Oct. 1997 Dow Jones Industrial Average drops 554 points. Circuit breaker rule went into effect for the first time, halting trading at 3:30 p.m.

- Montana Specific Events
  - 1985 Significant audit activity
  - 1992 Significant audit activity
  - 2000-2001 Large utility asset sales
  - 2001 Significant audit activity
  - 2001-Present Large corporation bankruptcies
  - 2001-Present Significantly increased number and amount of NOL-carry-backs
  - 2004 Significant audit activity

## Forecast Methodology



## Distribution Methodology



## Legislative Fiscal Division



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## LFD Mission Statement

We are committed to enhancing the legislative process through understandable and objective fiscal policy analysis and information.

## LEGISLATIVE FISCAL DIVISION



### Taxes in Brief... Corporation Income Tax

November 2004

Fiscal Pocket Guide



Legislative Fiscal Division  
Revenue and Taxation Policy  
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## Corporation Income Tax

### Revenue Description:

The corporation income tax is a license fee levied against a corporation's net income earned in Montana. The corporation income tax is imposed on corporations that, for reasons of jurisdiction, are not taxable under a license tax. Factors that affect corporation license tax receipts include tax credits and the audit efforts by the Department of Revenue. As with individual income tax, all forecasts are adjusted for allowable credits.

### Applicable Tax Rate(s):

The tax rate is 6.75%, except for corporations making a "water's edge" election (see 15-31-322, MCA), who pay a 7.0% tax on their net income.

### Distribution:

Beginning fiscal 2004 through fiscal 2011, the Department of Revenue may distribute up to 0.45% of this general fund revenue source as an administrative assessment to a state special revenue account to pay debt service on the loan used to fund a POINTS replacement computer system

(enacted in Senate Bill 271 by the 2003 legislature). In fiscal 2005 only, \$375,000 is distributed to the Department of Public Health and Human Services state special revenue account to match federal funds for Medicaid health services. All remaining corporation taxes are distributed to the general fund.

### Collection Frequency:

Monthly, Quarterly, and Annually

### Major Drivers:

- Corporate Profits
- Tax rate
- Audits
- Credits

### Statutory Reference:

Tax Rate (MCA) – 15-31-121,  
Tax Distribution (MCA) – 15-31-121, 15-1-501(1)  
Date Due – by the 15<sup>th</sup> day of the fifth month following the close of the corporate fiscal year (15-31-111, 15-31-502). Estimated taxes due April 15<sup>th</sup>, June 15<sup>th</sup>, September 15<sup>th</sup>, and December 15<sup>th</sup> (15-31-502).

